

# **City of Potterville, Michigan**

**Financial Statements and  
Independent Auditor's Report**

**For the Fiscal Year Ended  
June 30, 2008**

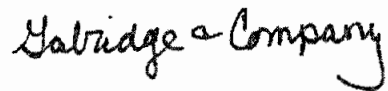
## TABLE OF CONTENTS

	<u>Page</u>
REPORT LETTER	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 9
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements	
Governmental Funds	
Balance Sheet	12
Reconciliation of Statement of Net Assets of Governmental Funds to the Balance Sheet	12
Statement of Revenues, Expenditures, and Changes in Fund Balances	13
Reconciliation of Statement of Revenues, Expenditures and Changes in Funds Balances to The Statement of Activities	13
Proprietary Funds	
Statement of Net Assets	14
Statement of Revenues, Expenses and Changes in Net Assets	15
Statement of Cash Flows	16
Fiduciary Funds – Statement of Net Assets and Liabilities	17
Component Units	
Statement of Net Assets	18
Statement of Activities	19
Notes to Financial Statements	20 - 39
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General Fund	40
Budgetary Comparison Schedule – Major Street Fund	41
Budgetary Comparison Schedule – Local Street Fund	42
OTHER SUPPLEMENTAL INFORMATION	
Nonmajor Governmental Funds	
Combining Balance Sheet	43
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	44
Budgetary Comparison Schedules	45 – 50



The management's discussion and analysis and budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Potterville, Michigan's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the City of Potterville, Michigan's basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Gabridge & Company".

Gabridge & Company, PLC  
Grand Rapids, MI  
December 26, 2008

## **Management's Discussion and Analysis**

As management of the City of Pottersville, we offer readers of the City of Pottersville's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

### **Financial Highlights**

The assets of the City exceeded its liabilities at the close of this fiscal year by \$6,127,283 (shown as *Net Assets*), representing a decrease of \$12,348 over the previous fiscal year. Of this amount, \$1,002,060 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

During the year, the City received \$1,672,919 in revenues and \$1,685,266 in expenses, resulting in a decrease in net assets of approximately \$12,348. Of the City's \$1,685,266 expense total, \$621,731 related to business-type expenses and the balance of \$1,063,535 related to governmental activities.

At the end of the current fiscal year, unreserved undesignated fund balance for the General Fund was \$321,592 or 54 percent of the General Fund's total expenditures.

### **Overview of the Financial Statements**

The City of Pottersville's financial statements consist of three components: 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements** The *government-wide financial statements* are designed to provide a broad overview of the City's financial position. They are presented using a method of accounting that is similar to a private sector business.

The *Statement of Net Assets* presents information on all of the City's assets and liabilities, the difference between the two being reported as the Net Assets of the City. Over time, increases or decreases in net assets can serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave, prepaid expenses, etc.).

Both of these statements distinguish functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). Governmental activities of the City include general government, public safety, major and local streets, public works, culture and recreation. Business-type activities of the City include water and sewer utility services.

### **Focus on Funds**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Each fund is operated similar to a completely separate entity, with its own set of balancing accounts. The City of Pottersville uses fund accounting to ensure compliance with finance-related legal requirements. There are three basic types of funds: governmental funds, proprietary funds, and fiduciary funds.

***Governmental Funds*** Many of the City's basic services are reported in the governmental funds. Governmental funds account for essentially the same functions as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This is known as the modified accrual system of accounting. Under this reporting system, capital items, debt payments and certain other items are treated differently than on the government-wide statements. These items are recorded in the government fund Balance as expenditures. No depreciation is recorded on capital items. The balance sheet for governmental funds does not include any capital items or long-term debt. Governmental funds for the City include the General Fund as well as the special revenue, and debt service funds.

***Proprietary Funds*** Proprietary funds account for services for which the City charges its customers for the services they are provided. These charges can be to external customers or other agencies for the services they are provided. These charges can be to external customers or other agencies within the City. There are two types of proprietary funds:

*Enterprise funds* are used to report business-like activities of the City. These activities intend to recover the full cost of the services through the fee charged to the customers. The City has two enterprise funds, which are the Water Fund and Sewer Fund.

*Internal Service funds* are the second type of proprietary funds. These funds provide services to other departments within the City. These funds allow the City to allocate costs of centralized services such as the City's vehicle fleet. The City has one internal service fund, the Equipment Pool Fund.

***Fiduciary Funds*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. These funds are not reflected in the government-wide financial statements because the resources of the funds are not available for supporting the City's programs. These funds are accounted for using the full accrual method of accounting much like the Proprietary funds.

**Component Units** The City's financial statements include reporting on separate legal entities for which the City has some level of financial responsibility. These funds are shown in a separate column. The City's component units include the Tax Increment Financing Authority, Downtown Development Authority, and Pottersville -Benton Township Fire Department .

## Notes to the Financial Statements

The Notes to the Basic Financial Statements provide additional information that is essential to a complete understanding of the information provided in both the Government-wide and the Fund Financial Statements.

## Other information

In addition to the basic financial statements and accompanying notes, this report further presents Required Supplementary Information (RSI) that explains the information presented in the financial statements.

## Government -Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Pottersville, assets exceeded liabilities b \$6,127,283 at the close of the most recent fiscal year. The following table illustrates the varying results of the governmental activities and business-type activities that combine to capture the City's total net assets.

CITY OF POTTERVILLE  
Net Assets as of June 30, 2008 and 2007

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary</u>	<u>Government</u>
	2008	2007	2008	2007	2008	2007
Current and Other Assets	\$ 942,979	\$ 728,949	\$ 562,541	\$ 607,760	\$ 1,505,520	\$ 1,336,709
Capital Assets	2,402,796	2,565,810	3,918,335	4,029,795	6,321,131	6,595,605
Total Assets	3,345,775	3,294,759	4,480,876	4,637,555	7,826,651	7,932,314
Long-term Liabilities	441,450	643,242	824,000	864,000	1,265,450	1,507,242
Other Liabilities	340,307	144,723	90,544	70,664	430,851	215,387
Total Liabilities	781,757	787,965	914,544	934,664	1,696,301	1,722,629
Net Assets						
Invested in Capital Assets,						
Net of Related Debt	1,957,082	1,819,921	3,054,333	3,125,795	5,011,415	4,945,716
Restricted	113,808	5,399	-	-	113,808	5,399
Unrestricted	490,059	682,243	512,001	529,158	1,002,060	1,211,401
Total Net Assets	<u>\$ 2,560,949</u>	<u>\$ 2,507,563</u>	<u>\$ 3,566,334</u>	<u>\$ 3,654,953</u>	<u>\$ 6,127,283</u>	<u>\$ 6,162,516</u>

The most significant portion of the City's Net Assets is the investments in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt which is outstanding that the City used to acquire or construct the asset. The City has \$1,002,060 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by the City policies regarding their use.

The total net assets of the City decreased \$32,164 in this fiscal year. The following table illustrates and summarizes the results of the changes in the Net Assets for the City. The condensed information was derived from the Government-wide Statement of Activities.

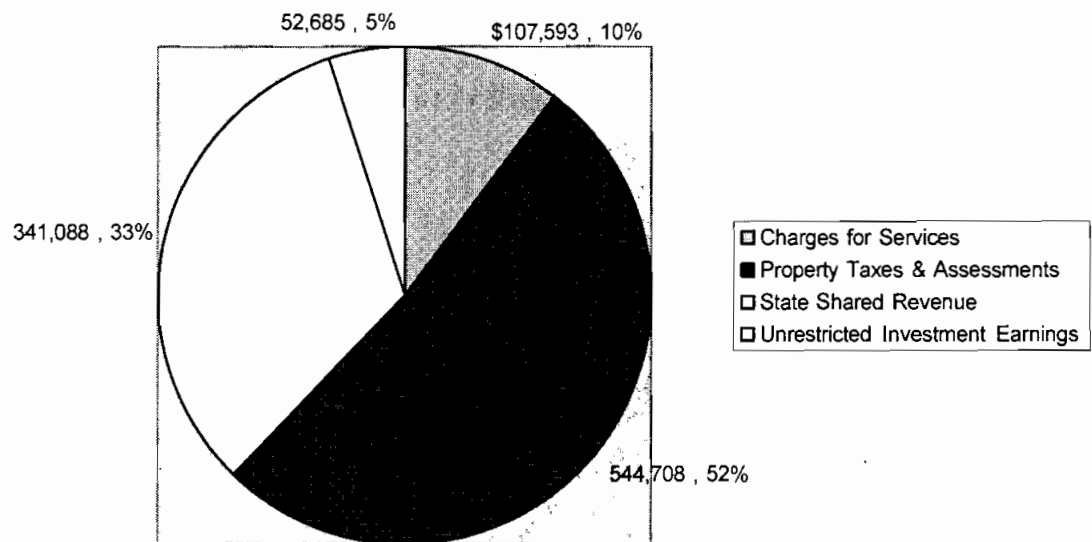
**CITY OF POTTERVILLE**  
Change in Net Assets for Fiscal Year Ended June 30, 2008

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<b>Revenue</b>						
<b>Program Revenues</b>						
Charges for Services	\$ 107,593	\$ 24,375	\$ 458,247	\$ 458,961	\$ 565,840	\$ 483,336
Operating Grants & Contributions	-	71,500	-	-	-	71,500
Total Program Revenues	107,593	95,875	458,247	458,961	565,840	554,836
<b>General Revenues</b>						
Property Taxes & Assessments	544,708	523,746	-	-	544,708	523,746
State Shared Revenue	341,088	345,885	-	-	341,088	345,885
Unrestricted Investment Earnings	52,685	48,492	9,622	2,180	62,307	50,672
Intergovernmental Revenue	-	(4,531)	-	-	-	(4,531)
Other	93,732	77,089	65,244	48,882	158,976	125,971
Total Revenues	1,139,806	1,086,556	533,113	510,023	1,672,919	1,596,579
<b>Expenses</b>						
Legislative	22,065	9,243	-	-	22,065	9,243
General Government	217,109	181,260	-	-	217,109	181,260
Public Safety	302,207	239,877	-	-	302,207	239,877
Public Works	248,353	174,240	-	-	248,353	174,240
Recreation & Culture	74,970	62,977	-	-	74,970	62,977
Depreciation	171,936	171,447	-	-	171,936	171,447
Interest on Long-Term Debt	26,895	34,274	-	-	26,895	34,274
Water & Sewer	-	-	621,731	614,816	621,731	614,816
Total Expenses	1,063,535	873,318	621,731	614,816	1,685,266	1,488,134
Increase / Decrease in Net Assets	76,271	213,238	(88,618)	(104,793)	(12,347)	108,445
Beginning Net Assets	2,484,678	2,271,440	3,654,953	3,759,746	6,139,631	6,031,186
Ending Net Assets	<u>\$ 2,560,949</u>	<u>\$ 2,484,678</u>	<u>\$ 3,566,335</u>	<u>\$ 3,654,953</u>	<u>\$ 6,127,283</u>	<u>\$ 6,139,631</u>



### Governmental Activities

The following chart details the revenue sources for the governmental activities of the City for the most recent fiscal year end:



Public Safety expenses were the largest expenses for the City. The City spent \$302,207 on Public Safety, or 28.42 percent of the City's expenses. General Government expenses of \$217,109 represented 20.41 percent of the total expenses within the governmental activities.

### Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Activities** At the completion of the City's fiscal year, its governmental funds reported fund balances of \$641,469. Of this amount, \$530,730 or 82.74 percent is unreserved. Of this amount, \$110,739 of unreserved and undesignated fund balances exists in the City's Special Revenue funds.

**General Fund** The General Fund is the main operating fund of the City. The general Fund increased its balance in this fiscal year by \$129,526, bringing the balance to \$321,592. Property Tax revenues in the General Fund increased \$15,829 from the previous fiscal year, an increase of 3.0 percent.

**Major Street Fund** The fund balance of the Major Street Fund at the most recent fiscal year end was \$156,740. This was an increase of \$17,762 from the previous fiscal year end.

**Local Street Fund** The fund balance of the Local Street Fund at the most recent fiscal year end was \$53,080. This was an increase of \$23,225 from the previous fiscal year end.

### **Business-Type Activities**

The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the sewer and water funds at the end of the year amounted to \$276,759 and \$235,242, respectively. The sewer fund had a decrease in net assets for the year of \$29,015, whereas the water fund had a decrease of \$59,603.

### **General Fund Budgetary Highlights**

Differences between the original and final amended budgets and between final amended budgets and actual expenditures were relatively minor for the year.

### **Capital Asset and Debt Administration**

**Capital Assets** The City's investment in capital assets for the governmental and business-type activities as at year end amounted to \$6,321,131 (net of accumulated depreciation). Capital assets of the City include any items purchased that cost in excess of \$5,000 and have an expected useful life of over one year. The City has invested in a broad range of capital assets, as detailed below:

#### CITY OF POTTERVILLE Capital Assets as of June 30, 2008

	Governmental Activities	Business-Type Activities	Total Primary Government
Land and Land Improvements	\$ 294,763	\$ 260,076	\$ 554,839
Infrastructure	3,015,873	5,600,355	8,616,228
Buildings	545,827	-	545,827
Improvements Other than Buildings	1,151,225	-	1,151,225
Machinery and Equipment	-	786,026	786,026
Subtotal	<u>5,007,688</u>	<u>6,646,457</u>	<u>11,654,145</u>
Accumulated Depreciation	2,682,420	2,728,122	5,410,542
Internal Service Fund (Net Assets)	77,528	-	77,528
Net Capital Assets	<u><u>\$ 2,402,796</u></u>	<u><u>\$ 3,918,335</u></u>	<u><u>\$ 6,321,131</u></u>

**Long Term Debt** At the end of the current fiscal year, the City had total debt outstanding, exclusive of compensated absences, of \$1,387,242. Of this amount, \$1,369,000 comprises debt backed by the full faith and credit of the City. The remainder of the City's debt represents bonds secured solely by specified revenue sources. The revenue bonds are from the Sewer Fund

(\$249,000) which are backed by revenues from the Sewer system and have been used to finance major capital projects within the Sewer system.

State statutes limit the amount of general obligation debt a government entity may issue to 10% of its total assessed valuation. The current debt limitation based on the City's assessed valuation is significantly in excess of the City's outstanding general obligation debt of \$1,387,242.

More information on the City's long-term debt is available in the Notes to Financial Statements section of this document.

### **Contacting the City's Finance Department**

This Financial report is designed to provide the wide variety of users of this document with a general overview of the City's finances and demonstrate the City's accountability for the money entrusted to it. If you have any questions regarding this report or need additional financial information, please direct your requests to the City of Potterville, City Clerk, 319 N. Nelson Street, Potterville, MI 48876, or call (517) 645-7641.

The financial reports for the Tax Increment Financing Authority, a component unit of the City, can be obtained by contacting City of Potterville Tax Increment Financing Authority, 319 North Nelson Street, Potterville, MI 48876.

The Financial reports for the Potterville -Benton Township Fire Department, a component unit of the City, can be obtained by contacting Potterville -Benton Township Fire Department, 4713 Hartel Road, Potterville, MI 48876.

CITY OF POTTERVILLE  
Government Wide Statement of Net Assets  
June 30, 2008

	Primary Government			
	Governmental Type Activities	Business Type Activities	Total	Component Units
<b>Assets</b>				
<b>Current Assets</b>				
Cash	\$ 658,125	\$ 297,298	\$ 955,423	\$ 200,035
Accounts Receivable - Net	-	56,391	56,391	18,056
Special Assessment Receivable	58,341	-	58,341	-
Due From Other Governmental Units	88,681	-	88,681	-
Due From Other Funds	114,580	146,351	260,931	-
Bond Discount, Net of Amortization	20,000	-	20,000	19,063
Prepaid Expenses	3,252	14,714	17,966	-
Total Current Assets	942,979	514,754	1,457,733	237,154
<b>Noncurrent Assets</b>				
Restricted Cash	-	47,789	47,789	-
Investments - Certificates of Deposit	-	-	-	-
Capital Assets - Net	2,402,796	3,918,335	6,321,131	305,095
Total Assets	3,345,775	4,480,876	7,826,653	542,249
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Accounts Payable	15,416	2,059	17,475	19,412
Current Portion of Noncurrent Liabilities	81,792	40,000	121,792	91,404
Interest Payable	4,146	9,405	13,551	2,472
Pension Payable	-	3,762	3,762	-
Accrued Payroll	7,503	3,010	10,513	-
Compensated Absences	10,546	17,672	28,218	-
Due to Other Funds	219,626	14,636	234,262	-
Other Current Liabilities	1,278	-	1,278	16,616
Total Current Liabilities	340,307	90,544	430,851	129,904
<b>Noncurrent Liabilities</b>				
Bonds, Notes and Loans Payable	435,000	824,000	1,259,000	329,710
Equipment Contracts Payable	6,450	-	6,450	-
Total Liabilities	781,757	914,544	1,696,301	459,614
<b>Net Assets</b>				
Invested in Capital Assets - Net of Related Debt	1,957,082	3,054,333	5,011,415	216,603
Restricted	113,808	-	113,808	-
Unrestricted	490,059	512,001	1,002,060	(133,968)
Total Net Assets	2,560,949	3,566,334	6,127,283	82,635
Total Liabilities & Net Assets	\$ 3,342,706	\$ 4,480,876	\$ 7,823,582	\$ 542,249

The footnotes are an integral part of these Financial Statements.

CITY OF POTTERVILLE  
Government Wide Statement of Activities  
For the Year Ended June 30, 2008

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Primary Government			
				Governmental Activities	Business-Type Activities	Total	
Primary Government							
Legislative	\$ 22,065			\$ (22,065)	\$ -	\$ (22,065)	\$ -
General Government	217,109	-	-	(217,109)	-	(217,109)	-
Public Safety	302,207	-	-	(302,207)	-	(302,207)	-
Public Works	248,353	67,070	-	(181,283)	-	(181,283)	-
Culture & Recreation	74,970	40,523	-	(34,447)	-	(34,447)	-
Debt Service	26,895	-	-	(26,895)	-	(26,895)	-
Unallocated Depreciation	171,936	-	-	(171,936)	-	(171,936)	-
Total Governmental Activities	1,063,535	107,593	-	(955,942)	-	(955,942)	-
Business-Type Activities							
Water & Sewer	621,731	458,247	-	-	(163,484)	(163,484)	-
Total Business-Type Activities	621,731	458,247	-	-	(163,484)	(163,484)	-
Total Primary Government	1,685,266	565,840	-	(955,942)	(163,484)	(1,119,426)	-
Component Units							
DDA	1,086	-	-	-	-	-	(1,086)
TIFA	288,880	-	-	-	-	-	(288,880)
Pottersville-Benton Fire Dept	462,403	132,006	-	-	-	-	(330,397)
Total Component Units	752,369	132,006	-	-	-	-	(620,363)
General Revenues							
Property Taxes				539,574	-	539,574	179,734
State Grants				341,088	-	341,088	-
Fines & Forfeitures				5,134	9,622	14,756	-
Interest & Rents				52,685	-	52,685	2,775
Intergovernmental Revenue (Expenses)				-	-	-	277,554
Other Revenue				93,732	65,244	158,976	46,117
Total General Revenues - Special Items & Transfers				1,032,213	74,866	1,107,079	506,180
Change in Net Assets				76,270	(88,618)	(12,348)	(114,183)
Net Assets - Beginning				2,487,748	3,654,953	6,142,701	196,818
Net Assets - Ending				\$ 2,564,018	\$ 3,566,335	\$ 6,130,352	\$ 82,635

The footnotes are an integral part of these Financial Statements

CITY OF POTTERVILLE  
Balance Sheet  
Governmental Funds  
June 30, 2008

	General Fund	Major Streets Fund	Local Streets Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
<b>Assets</b>					
Cash	\$ 434,648	\$ 141,958	\$ 47,150	\$ 25,531	\$ 649,288
Special Assessment Receivable	-	-	-	58,341	58,341
Due From Other Governmental Units	68,293	14,577	5,811	-	88,681
Due From Other Funds	26,902	-	-	83,503	110,405
Bond Discount, Net of Amortization	-	-	-	20,000	20,000
Prepaid Insurance	2,696	278	278	-	3,252
<b>Total Assets</b>	<b>532,539</b>	<b>156,813</b>	<b>53,239</b>	<b>187,375</b>	<b>929,966</b>
<b>Liabilities</b>					
<b>Liabilities</b>					
Accounts Payable	14,452	-	-	1,539	15,991
Accrued Payroll	5,969	-	-	1,403	7,372
Due to Other Funds	190,526	73	159	14,757	205,516
Other	-	-	-	1,278	1,278
Deferred Revenue	-	-	-	58,341	58,341
<b>Total Liabilities</b>	<b>210,947</b>	<b>73</b>	<b>159</b>	<b>77,318</b>	<b>288,498</b>
<b>Fund Balance</b>					
Reserved for Debt Service	-	-	-	108,409	108,409
Reserved for Park	-	-	-	2,330	2,330
Unreserved, Undesignated	321,592	156,740	53,080	(682)	530,730
<b>Total Fund Balance</b>	<b>321,592</b>	<b>156,740</b>	<b>53,080</b>	<b>110,057</b>	<b>641,469</b>
<b>Total Liabilities &amp; Fund Balance</b>	<b>\$ 532,539</b>	<b>\$ 156,813</b>	<b>\$ 53,239</b>	<b>\$ 187,375</b>	<b>\$ 929,966</b>

Amounts reported for governmental activities in the statement of net assets are different because:

Fund Balance	\$ 641,469
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	2,325,841
Internal Service Funds are used by the management to charge the cost of certain activities to other funds. The assets and liabilities of the internal service funds are included in the governmental activities of the statement of net assets.	54,469
Long-term liabilities are not due and payable in the current period and are not reported in the funds.	
Bonds payable	(505,000)
Accrued interest	(3,625)
Compensated absences	(10,546)
Long-term receivables are not available to pay current period expenditures and therefore are deferred in governmental funds.	58,341
<b>Total Net Assets - Governmental Activities</b>	<b>\$ 2,560,949</b>

The footnotes are an integral part of these Financial Statements.

CITY OF POTTERVILLE  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2008

	General Fund	Major Street Fund	Local Street Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Taxes	\$ 539,575	\$ -	\$ -	\$ -	\$ 539,575
Licenses & Permits	1,590	-	-	-	1,590
Fines & Forfeitures	5,134	-	-	-	5,134
Federal Grants	-	-	-	-	-
State Grants	214,680	90,949	35,459	-	341,088
Charges for Services	-	-	-	40,523	40,523
Interest & Rentals	46,229	4,265	1,355	835	52,685
Other Revenue	28,270	-	750	30,310	59,330
Total Revenues	835,478	95,214	37,564	71,669	1,039,924
<b>Expenditures</b>					
Legislative	22,065	-	-	-	22,065
General Government	217,109	-	-	-	217,109
Public Safety	298,843	-	-	-	298,843
Public Works	50,735	37,452	54,339	538	143,064
Culture & Recreation	-	-	-	80,170	80,170
Debt Service	-	-	-	238,910	238,910
Total Expenditures	588,752	37,452	54,339	319,618	1,000,160
Excess Revenues Over (Under) Expenditures	246,726	57,762	(16,775)	(247,949)	39,764
<b>Other Financing Sources (Uses)</b>					
Transfers Out	(117,200)	(40,000)	-	-	(157,200)
Transfers In	-	-	40,000	117,200	157,200
Total Other Financing Sources (Uses)	(117,200)	(40,000)	40,000	117,200	-
<b>Changes in Fund Balances</b>					
Net Change in Fund Balances	129,526	17,762	23,225	(130,749)	39,764
Fund Balance - Beginning of Year	192,066	138,978	29,855	240,806	601,705
Fund Balance - End of Year	<u>\$ 321,592</u>	<u>\$ 156,740</u>	<u>\$ 53,080</u>	<u>\$ 110,057</u>	<u>\$ 641,469</u>

Amounts reported for governmental activities in the statement of activities are different because:

Net Change in Fund Balance	\$ 39,764
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation. This is the amount by which depreciation exceeded capital outlays in the current period.	(153,620)
Internal Service Funds are used by the management to charge the costs of certain activities to other funds. The net revenue (expense) of the internal service fund is reported with governmental activities.	(18,525)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
Accrued Interest	2,015
Principal Payments	210,000
Compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(3,364)
Change in Net Assets of Governmental Activities	<u>\$ 76,270</u>

The footnotes are an integral part of these Financial Statements.

CITY OF POTTERVILLE  
Statement of Net Assets  
Proprietary Funds  
June 30, 2008

	Business-type Activities Enterprise Funds			Govenmental Activities
	Water Fund	Sewer Fund	Total	Internal Service Fund
<b>Assets</b>				
Current Assets				
Cash	\$ 101,388	\$ 195,910	\$ 297,298	\$ 5,770
Due From Other Funds	146,351	-	146,351	4,175
Receivables - Net	26,989	29,402	56,391	-
Prepaid Expenses	1,677	13,037	14,714	-
Total Current Assets	276,405	238,349	514,754	9,945
Noncurrent Assets				
Restricted Cash	-	47,789	47,789	-
Capital Assets - Net	1,810,072	2,108,263	3,918,335	77,528
Total Assets	2,086,477	2,394,401	4,480,876	87,473
<b>Liabilities</b>				
Current Liabilities				
Accounts Payable	2,059	-	2,059	-
Accrued Payroll	1,675	1,335	3,010	131
Current Portion of Noncurrent Liabilities	-	-	-	-
Interest Payable	7,330	2,075	9,405	521
Pension Payable	1,881	1,881	3,762	-
Due to Other Funds	14,636	-	14,636	14,110
Accrued Compensated Balances	13,583	4,088	17,671	-
Total Current Liabilities	41,164	9,379	50,543	14,762
Current Liabilities from Restricted Assets				
Revenue Bonds	20,000	20,000	40,000	-
Equipment Contracts	-	-	-	11,792
Total Current Liabilities from Restricted Assets	20,000	20,000	40,000	11,792
Noncurrent Liabilities				
Bonds, Notes and Loans Payable	595,000	229,000	824,000	6,450
Equipment Contracts	-	-	-	-
Total Liabilities	656,164	258,379	914,543	33,004
<b>Net Assets</b>				
Invested in Capital Assets - Net of Related Debt	1,195,072	1,859,263	3,054,333	59,286
Restricted	-	-	-	-
Unrestricted	235,242	276,759	512,001	(4,817)
Total Net Assets	1,430,313	2,136,022	3,566,334	54,469
Total Liabilities & Net Assets	\$ 2,086,477	\$ 2,394,401	\$ 4,480,876	\$ 87,473

The footnotes are an integral part of these Financial Statements.



CITY OF POTTERVILLE  
Statement of Revenues, Expenses and Changes in Net Assets  
Proprietary Funds  
For the Year Ended June 30, 2008

	Business-type Activities Enterprise Funds			Governmental Activities Internal Service Fund
	Water Fund	Sewer Fund	Total	
<b>Operating Revenue</b>				
Charges for Services	\$ 235,626	\$ 222,621	\$ 458,247	\$ 67,070
Fines & Forfeitures	4,373	5,249	9,622	-
Other Revenue	561	64,683	65,244	32,811
Total Operating Revenue	240,560	292,553	533,113	99,880
<b>Operating Expenses</b>				
Personal Services	88,495	75,102	163,597	10,611
Employee Benefits	17,988	17,105	35,093	4,871
Professional Services	2,564	6,913	9,477	34
Supplies	20,839	27,874	48,713	4,490
Repair & Maintenance	56,387	58,479	114,866	58,238
Insurance	3,280	3,723	7,003	4,152
Utilities	13,198	21,458	34,656	17,971
Depreciation	50,362	82,999	133,361	16,835
Rentals	16,977	15,964	32,941	-
Total Operating Expenses	270,090	309,618	579,708	117,202
Operating Income (Loss)	(29,530)	(17,065)	(46,595)	(17,322)
<b>Other Revenue (Expenses)</b>				
Interest on Long Term Debt	(30,073)	(13,414)	(43,487)	(1,203)
Hook-up Fees	-	-	-	-
Interest Earned	-	1,464	1,464	-
Total Other Revenue (Expenses)	(30,073)	(11,950)	(42,023)	(1,203)
Income (Loss) Before Transfers In (Out)	(59,603)	(29,015)	(88,618)	(18,525)
Transfers In (Out)	-	-	-	-
Change in Net Assets	(59,603)	(29,015)	(88,618)	(18,525)
Total Net Assets - Beginning	1,489,916	2,165,037	3,654,953	72,994
Total Net Assets - Ending	\$ 1,430,313	\$ 2,136,022	\$ 3,566,334	\$ 54,469

The footnotes are an integral part of these Financial Statements.

CITY OF POTTERVILLE  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2008

	Enterprise Funds		Governmental Activities
	Water Fund	Sewer Fund	Internal Service Fund
<b>Cash Flows From Operating Activities</b>			
Net Income (Loss)	\$ (59,603)	\$ (29,015)	\$ (18,525)
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	50,362	82,999	16,835
Interest and Dividends	-	(1,464)	-
Interest on Long Term Debt	30,073	13,414	1,203
Changes in Current Assets and Current Liabilities			
Accounts Receivable - Net	1,271	(3,225)	-
Due from Other Funds	5,000	5,000	62,979
Accounts Payable	(1,774)	(3,769)	(474)
Due to Other Funds	(19,839)	(15,152)	(66,473)
Current Portion of Noncurrent Liabilities	-	-	(855)
Interest Payable	(72)	(136)	(260)
Other Current Liabilities	11,162	1,520	(938)
Net Cash Provided by Operating Activities	16,581	38,814	(6,508)
<b>Cash Flows From Capital and Related Financing Activities</b>			
Capital Asset Purchases	-	(21,900)	(7,441)
Principal Paid on Capital Debt	(20,000)	(20,000)	(11,792)
Net Cash Provided by Capital and Related Financing Activities	(20,000)	(41,900)	(19,233)
<b>Cash Flows From Investing Activities</b>			
Interest on Long Term Debt	(30,073)	(13,414)	(1,203)
Net Cash Provided by Investing Activities	(30,073)	(13,414)	(1,203)
Net Increase (Decrease) in Cash and Cash Equivalents	(33,491)	(16,500)	(26,943)
Cash and Cash Equivalents at Beginning of Year	134,879	212,410	32,713
Cash and Cash Equivalents at End of Year	\$ 101,388	\$ 195,910	\$ 5,770

The footnotes are an integral part of these Financial Statements.

CITY OF POTTERVILLE  
Statement of Net Assets  
Fiduciary Funds  
June 30, 2008

	External Agency Fund	Internal Agency Fund	Total Agency Funds
<u>Assets</u>			
Cash	\$ 5,033	\$ 23,930	\$ 28,963
Due From Other Governments	-	4,589	4,589
Total Assets	<u>5,033</u>	<u>28,519</u>	<u>33,552</u>
<u>Liabilities</u>			
Due to Other Governments	5,033	-	5,033
Payroll Withholdings Payable	-	1,850	1,850
Pension Payable	-	26,669	26,669
Total Liabilities	<u>\$ 5,033</u>	<u>\$ 28,519</u>	<u>\$ 33,552</u>

The footnotes are an integral part of these Financial Statements.

CITY OF POTTERVILLE  
Component Units Statement of Net Assets  
June 30, 2008

	Component Units			
	Downtown Development Authority	Tax Increment Finance Authority	Pottersville - Benton Township Fire Department	Total
<b>Assets</b>				
Current Assets				
Cash	\$ 7,399	\$ 173,019	\$ 19,617	\$ 200,035
Accounts Receivable - Net	-	6,455	11,601	18,056
Bond Discount, Net of Amortization	-	19,063	-	19,063
Total Current Assets	7,399	198,537	31,218	237,154
Noncurrent Assets				
Capital Assets - Net	-	-	305,095	305,095
Total Assets	7,399	198,537	336,313	542,249
<b>Liabilities</b>				
Current Liabilities				
Accounts Payable	-	5,934	13,478	19,412
Current Portion of Noncurrent Liabilities	-	60,000	31,404	91,404
Interest Payable	-	2,472	-	2,472
Accrued Liabilities	-	-	16,616	16,616
Total Current Liabilities	-	68,406	61,498	129,904
Noncurrent Liabilities				
Bonds, Notes and Loans Payable	-	270,000	59,710	329,710
Total Liabilities	-	338,406	121,208	459,614
<b>Net Assets</b>				
Invested in Capital Assets - Net of Related Debt	-	-	216,603	216,603
Restricted	-	-	-	-
Unrestricted	7,399	(139,869)	(1,498)	(133,968)
Total Net Assets	7,399	(139,869)	215,105	82,635
Total Liabilities & Net Assets	\$ 7,399	\$ 198,537	\$ 336,313	\$ 542,249

The footnotes are an integral part of these Financial Statements.

CITY OF POTTERVILLE  
Component Units Statement of Activities  
For the Year Ended June 30, 2008

Functions / Programs	Expenses	Program Revenues	Net (Expense) Revenue and Changes in Net Assets			Total
		Charges for Services	Downtown Development Authority	Tax Increment Finance Authority	Pottersville - Benton Township Fire Department	
Component Units						
Downtown Development Authority	\$ 1,086	\$ -	\$ (1,086)	\$ -	\$ -	\$ (1,086)
Tax Increment Finance Authority	288,880	-	-	(288,880)	-	(288,880)
Pottersville-Benton Township Fire Dept	462,403	132,006	-	-	(330,397)	(330,397)
Total Component Unit Activities	<u>752,369</u>	<u>132,006</u>	<u>(1,086)</u>	<u>(288,880)</u>	<u>(330,397)</u>	<u>(620,363)</u>
General Revenues						
Property Taxes			5,414	174,320	-	179,734
State Grants			-	-	-	-
Fines & Forfeitures			-	-	-	-
Interest & Rents			-	2,333	442	2,775
Intergovernmental			-	-	277,554	277,554
Other Revenue			-	-	46,117	46,117
Total General Revenues			<u>5,414</u>	<u>176,653</u>	<u>324,113</u>	<u>506,180</u>
Change in Net Assets			4,328	(112,227)	(6,284)	(114,183)
Net Assets - Beginning			3,071	(27,642)	221,389	196,818
Net Assets - Ending			<u>\$ 7,399</u>	<u>\$ (139,869)</u>	<u>\$ 215,105</u>	<u>\$ 82,635</u>

The footnotes are an integral part of these Financial Statements.

## CITY OF POTTERVILLE, MICHIGAN

### Notes to the Financial Statements

---

#### **Note 1 – Summary of Significant Accounting Policies**

The City of Potterville, Michigan, was incorporated December 12, 1962, and adopted its current charter on November 11, 1988. Located in Eaton County, the City operates under a Council-Manager form of government and provides the following services: public safety (police protection), highways and streets, recreation, public improvements, planning and zoning, and general administrative services. In addition, the City operates two major enterprise activities; a water supply system and a sewage collection and treatment system. The City's financial statements include the accountings of all City operations.

The financial statements of the City of Potterville, Michigan (government) have been prepared in conformity with the U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting principles are described below.

#### **Reporting Entity**

As required by U.S. generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the combined financial statements to emphasize that they are legally separate from the City.

**Discretely Presented Component Units** – The following component units are reported within the component units column in the statement of net assets. They are reported in a separate column to emphasize that they are legally separate from the City. More detailed information on each component unit is disclosed in the component units statement of net assets.

#### **Downtown Development Authority**

The Downtown Development Authority (DDA) was established pursuant to P.A. 197 of 1975 for the purpose of revitalizing the downtown business district. The DDA's governing body is appointed by the City Council. The DDA is also fiscally dependant upon the City because the government's council approves the DDA's budget and any debt issuances.

## CITY OF POTTERVILLE, MICHIGAN

### Notes to the Financial Statements

---

#### **Note 1 – Summary of Significant Accounting Policies (Continued)**

##### Tax Increment Financing Authority

On July 11, 1984, the City of Potterville established a Tax Increment Financing Authority (TIFA) for the purpose of promoting growth and development. The TIFA is legally separate from the primary government. The City Council appoints the three-member TIFA board and approves their budget.

Complete financial statements of the TIFA can be obtained from their administrative offices or from the City Clerk's office at City Hall.

City of Potterville Tax Increment Financing Authority  
319 North Nelson  
Potterville, MI 48876

Potterville -Benton Township Fire Department – The City of Potterville and the Township of Benton entered into an interlocal agreement for the purpose of providing fire and emergency services to respective units. Both local governmental units have an undivided 50% joint ownership of the Fire Department and its operation. The fire board consists of six members, three appointed by the City and three appointed by the Township. The City and Township both approve the annual Fire Department budget. During the fiscal year ended June 30, 2008, the City of Potterville contributed \$139,000 to the Fire Department.

Complete Financial statements of the Fire Department can be obtained by writing to:

Potterville -Benton Township Fire Department  
4713 Hartel Road  
Potterville, MI 48876

##### **Related Organizations**

Benton Township-Potterville District Library – The district library is a legally separate organization established to provide library services to residents of Benton Township and the City of Potterville. An elected seven-member board governs the district library. The district library is supported, in part, by a millage passed November 4, 1994. The tax of 1/5 mill applies to all taxable property in the library district, which consists of Benton Township and the City of Potterville. The district library board is empowered to propose and levy upon approval of the electors a tax for the support of the district library. It may also borrow money and issue bonds pursuant to the District Library Financing Act 265 of 1988 (MCL 397.287 et. Seq.). The district library indemnifies and holds harmless the participating municipalities from all claims and liabilities.

## CITY OF POTTERVILLE, MICHIGAN

### Notes to the Financial Statements

#### **Note 1 – Summary of Significant Accounting Policies (Continued)**

The City and Township do not hold title to any of the district library's assets, nor does it have rights to any surpluses or responsibility to finance any deficits of the district library.

#### **Government-Wide Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially responsible.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and enterprise funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows.



**CITY OF POTTERVILLE, MICHIGAN**

Notes to the Financial Statements

---

**Note 1 – Summary of Significant Accounting Policies (Continued)**

Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, interest and special assessments associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivables due within the current period is considered to be susceptible to accrual as revenue of the current period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the City are organized on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum numbers of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

CITY OF POTTERVILLE, MICHIGAN

Notes to the Financial Statements

---

**Note 1 – Summary of Significant Accounting Policies (Continued)**

Invested in Capital Assets, Net of Related Debt

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted Net Assets

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributors, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets are often designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be modified or removed.

The City of Potterville reports the following major governmental funds:

General Fund

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Street Fund

The Major Street Fund is used to account for the financial activity of the streets designated by the State of Michigan as major thoroughfares and for the maintenance contract of the state truck lines.

Local Street Fund

The Local Street Fund receives all local street money paid to the City by the State, accounts for all construction, maintenance, traffic services, and snow and ice control on all streets classified as local.

**CITY OF POTTERVILLE, MICHIGAN**

Notes to the Financial Statements

---

**Note 1 – Summary of Significant Accounting Policies (Continued)**

The City of Potterville reports the following major proprietary funds:

Water Fund

The Water Fund records financial activity of the water system which provides water to customers.

Sewer Fund

The Sewer Fund records financial activity of the sewage disposal services to its customers.

Additionally, the City of Potterville reports the following fund types:

Special Revenue Funds

The Special Revenue Funds are used to finance particular activities and are created out of receipts of specific taxes or other earmarked revenues. Such funds are authorized by statutory provisions to pay for certain activities with some special form of continuing revenues.

Debt Service Funds

The Debt Service Funds account for the servicing of general long-term debt not being financed by proprietary or nonexpendable trust funds.

Internal Service Funds

The Internal Service Funds account for operations that provided services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis.

Fiduciary Funds

Fiduciary Funds account for assets held by the City in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the City under the terms of a formal trust agreement. Fiduciary funds are not included in the governmental-wide statements.

## CITY OF POTTERVILLE, MICHIGAN

### Notes to the Financial Statements

---

#### **Note 1 – Summary of Significant Accounting Policies (Continued)**

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions involved.

Amounts reported as program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water fund, sewer fund, and the City's internal service fund are charges to customers for sales and services. Operating expenses for enterprise funds and for internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use the restricted resources first, then unrestricted resources as they are needed.

#### **Assets, Liabilities, and Net Assets or Equity**

##### **Cash and Cash Equivalents**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

**CITY OF POTTERVILLE, MICHIGAN**

Notes to the Financial Statements

**Note 1 – Summary of Significant Accounting Policies (Continued)**

Investments

The City's investment policy is in compliance with state law and authorizes the City to invest in passbook savings accounts, negotiable and nonnegotiable certificates of deposit, repurchase agreements backed by the United States government or federal agency obligations, United States Treasury bills and bonds, banker acceptances, federal agency instruments, money market funds and commercial paper. Investments in commercial paper must be rated in one of the two highest rating categories by Standard and Poor's or Moody's and are limited to fifty percent of a funds portfolio in accordance with state statutes. Investments are stated at fair value which is determined using selected bases. Securities traded on a national exchange are valued at the last reported sales price. Managed funds not listed on an established market are reported at fair value as determined by the respective fund managers based on quoted prices of underlying securities.

Receivables and Payables

In general, outstanding balances between funds are reported as "due to / from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of an allowance for uncollectible amounts.

Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. The City bills and collects its own property taxes and also taxes for the County and school districts. Collections of the County and school taxes and remittance of them to the taxing units are accounted for in the Current Tax Collection Fund. County and school taxes are billed and due December 1, and become delinquent after February 14. City property tax revenues are recognized when levied thus none of the 2008 summer roll has been recognized in these statements. City taxes are billed and due July 1, and become delinquent after August 10.

**CITY OF POTTERVILLE, MICHIGAN**

Notes to the Financial Statements

**Note 1 – Summary of Significant Accounting Policies (Continued)**

Restricted Assets

The restricted assets of the Enterprise Funds consist of bond and interest redemption, bond reserve and system improvement deposits. These have been set up in keeping with the bond indenture agreements.

Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Inventories held by the General, Water and Internal Service Funds are not considered material and are not included in these financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an estimated useful life in excess of one year and an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

## CITY OF POTTERVILLE, MICHIGAN

### Notes to the Financial Statements

#### Note 1 – Summary of Significant Accounting Policies (Continued)

Property, plant and equipment are depreciated in the proprietary funds of the government using the straight-line method over the following estimated useful lives:

Asset	Useful Life
Buildings	20 - 50 Years
Public domain infrastructure	20 - 30 Years
Mains & connections	20 - 100 Years
Equipment	10 - 20 Years
Intangibles	3 - 5 Years

#### Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for nonvesting, unpaid accumulated sick leave. All vacation pay and vested sick leave is accrued when incurred in the government-wide and proprietary fund financial statements.

#### Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. The City has opted to apply the provisions of GASB 34 paragraph 146, which allows the amortizations of premiums, discounts, and bond issuance costs to be applied prospectively for all bonds issued after July 1, 2003. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

## CITY OF POTTERVILLE, MICHIGAN

### Notes to the Financial Statements

#### **Note 1 – Summary of Significant Accounting Policies (Continued)**

##### Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

##### Use of Estimates

The presentation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### Comparative Data / Reclassifications

Comparative data is not included in the City's financial statements.

#### **Note 2 – Stewardship, Compliance and Accountability**

Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Annual appropriated budgets are adopted for the general, special revenue and capital projects funds. All annual appropriations lapse at fiscal year-end.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) lapse at year-end and do not constitute expenditures or liabilities because the commitments will generally be reappropriated and honored during the subsequent year.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of ordinance.



**CITY OF POTTERVILLE, MICHIGAN**

Notes to the Financial Statements

**Note 2 – Stewardship, Compliance and Accountability (Continued)**

4. All transfers of budget amounts between departments within any fund and any revisions that alter the total expenditures of any fund must be approved by the City Council. General Fund expenditures may not legally exceed appropriation at the total fund level.
5. Budgets for the General, Special Revenue and Capital Projects Funds are adopted on a basis consistent with U.S. generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the City Council from time to time throughout the year. The City amended its budget once during the current fiscal year.
6. Budget appropriations lapse at the end of the fiscal year for all funds, except for certain capital projects which are adopted on a per project basis.

Excess of Expenditures Over Appropriations in Budgeted Funds – The City had the following budget variances:

	Final Budget	Actual	Variance
General Fund - Public Safety	289,675	298,843	(9,168)
Parks Fund - Culture & Recreation	71,760	77,078	(5,318)

**Note 3 – Deposits and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loans associations that have offices in Michigan. A local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; commercial paper rated within the two highest classifications, which matures not more than 270 days after date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated two banks for the deposits of its funds.

Custodial credit risk is the risk that in the event of a bank failure, the government's deposit may not be returned. The city does not have a deposit policy for credit risk. The City's deposits are owned by several of the City's funds. At year end, the carrying

# **CITY OF POTTERVILLE, MICHIGAN**

## **Notes to the Financial Statements**

### **Note 3 – Deposits and Investments (Continued)**

amount of the primary government's deposits and cash on hand was \$1,032,176 and the bank balance was \$1,063,829. Of the bank balance, \$489,230 was covered by federal depository insurance, and \$574,599 was uninsured and uncollateralized.

As of June 30, 2008, \$200,035 of the component unit's bank balances and investments in certificates of deposit was covered by federal depository insurance. The component units do not have a deposit policy for custodial credit risk.

### **Note 4 - Receivables**

Receivables as of year end for the government's individual major funds and nonmajor, internal service, and fiduciary funds in aggregate, including the applicable allowances for uncollectible accounts are as follows:

	General Fund	Major Streets	Local Streets	Nonmajor Funds	Water & Sewer	Total
Receivables						
Intergovernmental	\$ 68,293	\$ 14,577	\$ 5,811	\$ -	\$ -	\$ 88,681
Special Assessment	-	-	-	58,341	-	58,341
Accounts	-	-	-	-	56,391	56,391
Total Receivables	<u>\$ 68,293</u>	<u>\$ 14,577</u>	<u>\$ 5,811</u>	<u>\$ 58,341</u>	<u>\$ 56,391</u>	<u>\$ 203,413</u>

By ordinance, the City can place substantially all of its delinquent receivables on the tax rolls as a lien against real property.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable
Storm Drain Special Assessment	\$ 21,903
Sunset Hills Special Assessment	36,438
Total	<u>\$ 58,341</u>

**CITY OF POTTERVILLE, MICHIGAN**

Notes to the Financial Statements

**Note 5 – Capital Assets**

Capital asset activity of the City's governmental and business-type activities was as follows:

**Governmental Activities**

	<u>6/30/2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>6/30/2008</u>
Capital assets not being depreciated:				
Land	\$ 294,763	\$ -	\$ -	\$ 294,763
Capital assets being depreciated:				
Buildings	540,627	5,200	-	545,827
Land improvements	1,151,225	-	-	1,151,225
Paved roads	2,661,494	13,116	-	2,674,610
Unpaved roads	67,770	-	-	67,770
Bike path	273,493	-	-	273,493
Total:	<u>4,694,609</u>	<u>18,316</u>	<u>-</u>	<u>4,712,925</u>
Accumulated depreciation:				
Buildings	90,395	11,010	-	101,405
Land improvements	992,056	57,561	-	1,049,617
Paved roads	1,365,976	89,109	-	1,455,085
Unpaved roads	31,626	2,259	-	33,885
Bike path	30,431	11,996	-	42,427
Total:	<u>2,510,484</u>	<u>171,936</u>	<u>-</u>	<u>2,682,420</u>
Net capital assets being depreciated:	<u>2,184,125</u>	<u>(153,620)</u>	<u>-</u>	<u>2,030,505</u>
Net capital assets:	<u>2,478,888</u>	<u>(153,620)</u>	<u>-</u>	<u>2,325,268</u>
Internal Service Fund				
Net capital assets:	86,922	11,617	21,011	77,528
Net capital assets per Statement of Net Assets:	<u>\$ 2,565,810</u>	<u>\$ (142,003)</u>	<u>\$ 21,011</u>	<u>\$ 2,402,796</u>

**CITY OF POTTERVILLE, MICHIGAN**

Notes to the Financial Statements

**Note 5 – Capital Assets (Continued)**

**Business-type Activities - Sewer**

	<u>6/30/2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>6/30/2008</u>
Capital assets not being depreciated:				
Land	\$ 236,363	\$ -	\$ -	\$ 236,363
Capital assets being depreciated:				
Treatment system	3,449,218	21,900	-	3,471,118
Sewer lines	459,697	-	-	459,697
Machinery & Equipment	36,298	-	-	36,298
Total:	<u>3,945,213</u>	<u>21,900</u>	<u>-</u>	<u>3,967,113</u>
Accumulated depreciation:				
Treatment system	1,681,659	71,244	-	1,752,903
Sewer lines	315,692	9,194	-	324,886
Machinery & Equipment	14,864	2,560	-	17,424
Total:	<u>2,012,215</u>	<u>82,998</u>	<u>-</u>	<u>2,095,213</u>
Net capital assets being depreciated:	<u>1,932,998</u>	<u>(61,098)</u>	<u>-</u>	<u>1,871,900</u>
Net capital assets - Sewer:	<u>\$ 2,169,361</u>	<u>\$ (61,098)</u>	<u>\$ -</u>	<u>\$ 2,108,263</u>

**Business-type Activities - Water**

	<u>6/30/2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>6/30/2008</u>
Capital assets not being depreciated:				
Land	\$ 23,713	\$ -	\$ -	\$ 23,713
Capital assets being depreciated:				
Machinery & Equipment	749,728	-	-	749,728
Mains and connections	863,948	-	-	863,948
Wells and structures	805,592	-	-	805,592
Total:	<u>2,419,268</u>	<u>-</u>	<u>-</u>	<u>2,419,268</u>
Accumulated depreciation:				
Machinery & Equipment	241,321	16,858	-	258,179
Mains and connections	280,759	16,393	-	297,152
Wells and structures	60,467	17,110	-	77,577
Total:	<u>582,547</u>	<u>50,362</u>	<u>-</u>	<u>632,909</u>
Net capital assets being depreciated:	<u>1,836,721</u>	<u>(50,362)</u>	<u>-</u>	<u>1,786,359</u>
Net capital assets - Water:	<u>\$ 1,860,434</u>	<u>\$ (50,362)</u>	<u>\$ -</u>	<u>\$ 1,810,072</u>

**CITY OF POTTERVILLE, MICHIGAN**

Notes to the Financial Statements

**Note 5 – Capital Assets (Continued)**

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
Unallocated Depreciation	<u>\$ 171,936</u>
Business-type Activities	
Sewer	82,999
Water	<u>50,362</u>
Total:	<u>\$ 133,361</u>

**Note 6 – Interfund Receivables and Payables**

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund	Interfund Receivables Due From's	Fund	Interfund Payables Due To's
General	\$ 73	Major Street	\$ 73
General	159	Local Street	159
General	26,669	Payroll	26,669
Park	40,000	General	40,000
Water	146,351	General	146,351
Equipment	4,175	General	4,175
Debt Service	14,110	Equipment	14,110
Debt Service	14,636	Water	14,636
Storm Drain	14,757	Sunset Hills	14,757
Totals:	<u>\$ 260,930</u>		<u>\$ 260,930</u>

**Note 7 – Long-term Debt**

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

**CITY OF POTTERVILLE, MICHIGAN**

Notes to the Financial Statements

**Note 7 – Long-term Debt (Continued)**

Long-term obligation activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Maturity</u>	<u>6/30/07 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/08 Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>							
Purchase agreement - '06 Crown Victoria	5.50%	2009	\$ 18,479	\$ -	\$ 5,863	\$ 12,616	\$ 6,166
Lease purchase agreement - GMC truck	5.00%	2009	12,410	-	6,784	5,626	5,626
Sunset Hills special assessment bonds	5.45%	2008	150,000	-	150,000	-	-
'07 Refunding Bld authority bonds	4.35%	2014	565,000	-	60,000	505,000	70,000
Compensated absences			7,742	2,804	-	10,546	-
<b>Total Governmental:</b>			<u>753,631</u>	<u>2,804</u>	<u>222,647</u>	<u>533,788</u>	<u>81,792</u>
<b>Business-type Activities</b>							
1979 Sewage Bonds	5.00%	2018	269,000	-	20,000	249,000	20,000
'02 General obligation limited tax bonds	4.20-7.00%	2022	635,000	-	20,000	615,000	20,000
Compensated absences			5,433	12,238	-	17,671	-
<b>Total Business-type</b>			<u>\$ 909,433</u>	<u>\$ 12,238</u>	<u>\$ 40,000</u>	<u>\$ 881,671</u>	<u>\$ 40,000</u>

**CITY OF POTTERVILLE, MICHIGAN**

Notes to the Financial Statements

**Note 7 – Long-term Debt (Continued)**

Annual debt service requirements to maturity for the above bonds and note obligations, other than vested sick and vacation pay, are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 81,792	\$ 21,262	\$ 103,054	\$ 40,000	\$ 41,070	\$ 81,070
2010	76,450	17,755	94,205	45,000	38,495	83,495
2011	70,000	14,355	84,355	48,000	35,745	83,745
2012	75,000	10,201	85,201	53,000	32,670	85,670
2013	80,000	7,830	87,830	55,000	29,495	84,495
2014-2018	140,000	5,437	145,437	338,000	103,460	441,460
2019-2023	-	-	-	285,000	31,395	316,395
Totals:	<u>\$ 523,242</u>	<u>\$ 76,840</u>	<u>\$ 600,082</u>	<u>\$ 864,000</u>	<u>\$ 312,330</u>	<u>\$ 1,176,330</u>

**Note 8 – Operating Transfers In / Out**

The following is a schedule of operating transfers between funds for the year ending June 30, 2008:

Fund	Transfers In	Fund	Transfers Out
Debt Service Fund	\$ 83,600	General Fund	\$ 83,600
Park Fund	33,600	General Fund	33,600
Local Street Fund	40,000	Major Street Fund	40,000
Totals:	<u>\$ 157,200</u>		<u>\$ 157,200</u>

**Note 9 – Employee Retirement Systems**

Defined Contribution

The City has defined contribution pension plans with the Mass Mutual Life Insurance Company which covers 8 to 11 employees who have satisfied eligibility requirements. Each employee becomes eligible after three years of service. Benefits vest according to the following schedule.

Years of Service	Vesting %
1	20%
2	40%
3	60%
4	80%
5	100%

## **CITY OF POTTERVILLE, MICHIGAN**

### **Notes to the Financial Statements**

---

#### **Note 9 – Employee Retirement Systems (Continued)**

The formula for determining contributions is based on an employee's annual compensation. The City has elected to contribute 10% of compensation. Employees may make elective deferral contributions up to limits defined by the Internal Revenue Service.

During the year, the City of Potterville's required contributions amounted to \$22,560 which was 10% of its current year covered payroll. However, the City actually contributed \$27,107 which was due for the prior year.

#### **Note 10 – Deferred Compensation Plan**

The City of Potterville offers all employees a deferred compensation plan created in accordance with the Internal Revenue Code, section 457. The assets of the plan are held in trust, custodial account or annuity contract described in the IRC section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian for the exclusive benefit of the participants and beneficiaries of these section 457 plans and the assets may not be diverted to any other use. The administrator is an agent of the employer. The administrator provides direction to the custodian, from time to time, regarding the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB statement No. 32, Plan balances and activities are not reflected in the City's financial statements.

#### **Note 11 – Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; error and omissions; workers' compensation; and natural disasters. The City participates in the Michigan Municipal Liability and Property Pool for claims relating to general liability, excess liability, auto liability, error and omissions, physical damage (equipment, building and contents) and workers' compensations. Settlement amounts have not exceeded insurance coverage for the past four years.

The local units in the State of Michigan established and created a trust fund, known as the Michigan Municipal Liability and Property Pool pursuant to the provision of Public Act 138 and 1982. The pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to local units and related local unit activities within the state.

The Michigan Municipal Liability Pool program operates as a common risk-sharing management program for local units in Michigan. Member premiums are used to



## **CITY OF POTTERVILLE, MICHIGAN**

### **Notes to the Financial Statements**

#### **Note 11 – Risk Management (Continued)**

purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

#### **Note 12 – Related Party Transactions**

The City purchases health Insurance from a Council Member's insurance agency. The total premiums paid during the year ended June 30, 2008 were \$69,293.

#### **Note 13 – Accumulated Fund Deficits**

The City had the following fund deficits at June 30, 2008:

Storm Drain Maintenance Fund	(682)
Sunset Hills Special Assessment Fund	(12,576)

#### **Note 14 – Contingent Liabilities**

Management is aware of three pending lawsuits as of June 30, 2008, all of which were resolved during the fiscal year ending on June 30, 2009. A lawsuit between the City of Potterville and Wanda Darrow was dropped in 2009 with no settlement due. A second lawsuit between former City Police Chief Van Johnson and the City of Potterville was settled in 2009 by the City agreeing to pay all accrued sick, vacation and personal time in return for Johnson's resignation. The third lawsuit between former City Police Officer Jason Harmon and the City of Potterville was settled also in 2009 by the City agreeing to pay a settlement in the amount of \$8,500 in return for Harmon's resignation. Both the accrued paid time off (Johnson) and the settlement (Harmon) amounts have been included in the 2008 financial statements.

Additionally, the City of Potterville is subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its operating activities, including zoning and building code issues. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material effect on the City's financial condition or results of operations.

CITY OF POTTERVILLE  
 Budgetary Comparison Schedule  
 General Fund  
 For the Year Ended June 30, 2008

	Budgeted Amounts			Variance with Final Budget -
	Original Budget	Final Budget	2008 Actual	Favorable (Unfavorable)
<b>Revenues</b>				
Taxes	\$ 459,200	\$ 530,000	\$ 539,575	\$ 9,575
Licenses & Permits	1,400	1,400	1,590	190
Fines & Forfeitures	100	4,250	5,134	884
State Grants	210,000	210,000	214,680	4,680
Interest & Rentals	36,500	47,500	46,229	(1,271)
Other Revenue	26,900	25,000	28,270	3,270
Total Revenues	734,100	818,150	835,478	17,328
<b>Expenditures</b>				
Legislative	8,500	23,800	22,065	1,735
General Government	259,985	234,320	217,109	17,211
Public Safety	284,305	289,675	298,843	(9,168)
Public Works	34,917	51,585	50,735	850
Total Expenditures	587,707	599,380	588,752	10,628
Excess Revenues Over (Under) Expenditures	146,393	218,770	246,726	27,956
Other Financing Sources (Uses)				
Transfers Out	145,400	117,200	117,200	-
Transfers In	-	-	-	-
Total Other Financing Sources (Uses)	145,400	117,200	117,200	-
Excess Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	993	101,570	129,526	27,956
Fund Balance - Beginning of Year	192,066	192,066	192,066	
Fund Balance - End of Year	\$ 193,059	\$ 293,636	\$ 321,592	

The footnotes are an integral part of these Financial Statements.

CITY OF POTTERVILLE  
 Budgetary Comparison Schedule  
 Major Street Fund  
 For the Year Ended June 30, 2008

	Budgeted Amounts			Variance with Final Budget - Favorable (Unfavorable)
	Original Budget	Final Budget	2008 Actual	
<b>Revenues</b>				
State Grants	\$ 85,000	\$ 85,000	\$ 90,949	\$ 5,949
Interest & Rentals	500	4,500	4,265	(235)
Total Revenues	85,500	89,500	95,214	5,714
<b>Expenditures</b>				
Public Works	101,017	74,110	37,452	36,658
Total Expenditures	101,017	74,110	37,452	36,658
Excess Revenues Over (Under) Expenditures	(15,517)	15,390	57,762	42,372
Other Financing Sources (Uses)				
Transfers Out	(40,000)	(40,000)	(40,000)	-
Transfers In	-	-	-	-
Total Other Financing Sources (Uses)	(40,000)	(40,000)	(40,000)	-
Excess Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	(55,517)	(24,610)	17,762	42,372
Fund Balance - Beginning of Year	138,978	138,978	138,978	
Fund Balance - End of Year	\$ 83,461	\$ 114,368	\$ 156,740	

The footnotes are an integral part of these Financial Statements.

CITY OF POTTERVILLE  
 Budgetary Comparison Schedule  
 Minor Street Fund  
 For the Year Ended June 30, 2008

	Budgeted Amounts			Variance with Final Budget - Favorable (Unfavorable)
	Original Budget	Final Budget	2008 Actual	
<b>Revenues</b>				
State Grants	\$ 32,000	\$ 32,000	\$ 35,459	\$ 3,459
Interest & Rentals	500	1,400	1,355	(45)
Other Revenue	-	750	750	-
Total Revenues	32,500	34,150	37,564	3,414
<b>Expenditures</b>				
Public Works	71,521	80,110	54,339	25,771
Total Expenditures	71,521	80,110	54,339	25,771
Excess Revenues Over (Under) Expenditures	(39,021)	(45,960)	(16,775)	29,185
Other Financing Sources (Uses)				
Transfers Out	-	-	-	-
Transfers In	40,000	40,000	40,000	-
Total Other Financing Sources (Uses)	40,000	40,000	40,000	-
Excess Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	979	(5,960)	23,225	29,185
Fund Balance - Beginning of Year	29,855	29,855	29,855	
Fund Balance - End of Year	\$ 30,834	\$ 23,895	\$ 53,080	

The footnotes are an integral part of these Financial Statements.

CITY OF POTTERVILLE  
Balance Sheet  
Governmental Funds  
June 30, 2008

	Special Revenue Fund		Debt Service Fund			Permanent Fund	Total Nonmajor Governmental Funds
	Park Fund	Storm Drain Maintenance Fund	Storm Drain Special Assessment Fund	Sunset Hills Special Assessment Fund	Debt Service	Imagination Station Park Fund	
<b>Assets</b>							
Assets							
Cash	\$ 3,191	\$ 596	\$ -	\$ 2,181	\$ 17,233	\$ 5,399	\$ 28,600
Special Assessment Receivable	-	-	21,903	36,438	-	-	58,341
Due From Other Funds	40,000	-	14,757	-	28,746	-	83,503
Bond Discount, Net of Amortization	20,000	-	-	-	-	-	20,000
<b>Total Assets</b>	<b>63,191</b>	<b>596</b>	<b>36,660</b>	<b>38,619</b>	<b>45,979</b>	<b>5,399</b>	<b>190,444</b>
<b>Liabilities</b>							
Liabilities							
Accounts Payable	1,539	-	-	-	-	-	1,539
Accrued Payroll	1,403	-	-	-	-	-	1,403
Due to Other Funds	-	1,278	-	14,757	-	-	16,035
Deferred Revenue	-	-	21,903	36,438	-	-	58,341
<b>Total Liabilities</b>	<b>2,942</b>	<b>1,278</b>	<b>21,903</b>	<b>51,195</b>	<b>-</b>	<b>-</b>	<b>77,318</b>
<b>Fund Balance</b>							
Reserved for Debt Service	60,249	-	14,757	(12,576)	45,979	-	108,409
Reserved for Park	-	-	-	-	-	5,399	5,399
Unreserved, Undesignated	-	(682)	-	-	-	-	(682)
<b>Total Fund Balance</b>	<b>60,249</b>	<b>(682)</b>	<b>14,757</b>	<b>(12,576)</b>	<b>45,979</b>	<b>5,399</b>	<b>113,126</b>
<b>Total Liabilities &amp; Fund Balance</b>	<b>\$ 63,191</b>	<b>\$ 596</b>	<b>\$ 36,660</b>	<b>\$ 38,619</b>	<b>\$ 45,979</b>	<b>\$ 5,399</b>	<b>\$ 190,444</b>

The footnotes are an integral part of these Financial Statements.

CITY OF POTTERVILLE  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2008

	Special Revenue Fund		Debt Service Fund			Permanent Fund	Total Nonmajor Governmental Funds
	Park Fund	Storm Drain Maintenance Fund	Storm Drain Special Assessment Bond Fund	Sunset Hills Special Assessment Bond Fund	Debt Service	Imagination Station Park Fund	
<b>Revenues</b>							
Charges for Services	\$ 40,523	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 40,523
Interest & Rentals	813	-	-	-	-	23	835
Other Revenue	877	-	8,418	21,015	-	-	30,310
Total Revenues	42,213	-	8,418	21,015	-	23	71,668
<b>Expenditures</b>							
Culture & Recreation	77,078	-	-	-	-	3,092	80,170
Public Works	-	538	-	-	-	-	538
Debt Service	-	-	-	155,288	83,622	-	238,910
Total Expenditures	77,078	538	-	155,288	83,622	3,092	319,617
Excess Revenues Over (Under) Expenditures	(34,865)	(538)	8,418	(134,273)	(83,622)	(3,069)	(247,949)
<b>Other Financing Sources (Uses)</b>							
Transfers Out	-	-	-	-	-	-	-
Transfers In	33,600	-	-	-	83,600	-	117,200
Total Other Financing Sources (Uses)	33,600	-	-	-	83,600	-	117,200
<b>Changes in Fund Balances</b>							
Net Change in Fund Balances	(1,266)	(538)	8,418	(134,272)	(22)	(3,069)	(130,749)
Fund Balance - Beginning of Year	61,515	(144)	6,339	121,696	46,001	5,399	240,806
Fund Balance - End of Year	\$ 60,249	\$ (682)	\$ 14,757	\$ (12,576)	\$ 45,979	\$ 2,330	\$ 110,057

The footnotes are an integral part of these Financial Statements

CITY OF POTTERVILLE  
 Budgetary Comparison Schedule  
 Park Fund  
 For the Year Ended June 30, 2008

	Budgeted Amounts			Variance with Final Budget - Favorable (Unfavorable)
	Original Budget	Final Budget	2008 Actual	
<b>Revenues</b>				
Charges for Services	\$ 31,900	\$ 37,700	\$ 40,523	\$ 2,823
Interest & Rentals	-	1,000	813	(188)
Other Revenue	-	150	877	727
Total Revenues	31,900	38,850	42,213	3,363
<b>Expenditures</b>				
Culture & Recreation	47,500	71,760	77,078	(5,318)
Total Expenditures	47,500	71,760	77,078	-
Excess Revenues Over (Under) Expenditures	(15,600)	(32,910)	(34,865)	(1,955)
<b>Other Financing Sources (Uses)</b>				
Transfers Out	-	-	-	-
Transfers In	15,600	33,600	33,600	-
Total Other Financing Sources (Uses)	15,600	33,600	33,600	-
Excess Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	-	690	(1,266)	(1,955)
Fund Balance - Beginning of Year	61,515	61,515	61,515	
Fund Balance - End of Year	\$ 61,515	\$ 62,205	\$ 60,249	

The footnotes are an integral part of these Financial Statements.

CITY OF POTTERVILLE  
 Budgetary Comparison Schedule  
 Storm Drain Maintenance Fund  
 For the Year Ended June 30, 2008

	Budgeted Amounts		2008 Actual	Variance with Final Budget - Favorable (Unfavorable)
	Original Budget	Final Budget		
<u>Expenditures</u>				
Public Works	\$ -	\$ -	\$ 538	\$ (538)
Total Expenditures	-	-	538	(538)
Excess Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	-	-	(538)	(538)
Fund Balance - Beginning of Year	(144)	(144)	(144)	
Fund Balance - End of Year	<u>\$ (144)</u>	<u>\$ (144)</u>	<u>\$ (682)</u>	

The footnotes are an integral part of these Financial Statements.



CITY OF POTTERVILLE  
 Budgetary Comparison Schedule  
 Storm Drain Special Assessment Bond Fund  
 For the Year Ended June 30, 2008

	Budgeted Amounts			Variance with Final Budget - Favorable (Unfavorable)
	Original Budget	Final Budget	2008 Actual	
<u>Revenues</u>				
Other Revenue	\$ -	\$ -	\$ 8,418	\$ 8,418
Total Revenues	-	-	8,418	8,418
Excess Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	-	-	8,418	8,418
Fund Balance - Beginning of Year	6,339	6,339	6,339	
Fund Balance - End of Year	<u>\$ 6,339</u>	<u>\$ 6,339</u>	<u>\$ 14,757</u>	

The footnotes are an integral part of these Financial Statements.

CITY OF POTTERVILLE  
 Budgetary Comparison Schedule  
 Sunset Hills Special Assessment Bond Fund  
 For the Year Ended June 30, 2008

	Budgeted Amounts		2008 Actual	Variance with Final Budget - Favorable (Unfavorable)
	Original Budget	Final Budget		
<b>Revenues</b>				
Other Revenue	\$ 20,000	\$ 29,500	\$ 21,015	\$ (8,485)
Total Revenues	20,000	29,500	21,015	(8,485)
<b>Expenditures</b>				
Debt Service	155,438	155,290	155,288	3
Total Expenditures	155,438	155,290	155,288	3
Excess Revenues Over (Under) Expenditures	(135,438)	(125,790)	(134,273)	(8,483)
<b>Other Financing Sources (Uses)</b>				
Transfers Out	-	-	-	-
Transfers In	8,000	-	-	-
Total Other Financing Sources (Uses)	8,000	-	-	-
Excess Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	(127,438)	(125,790)	(134,272)	(8,483)
Fund Balance - Beginning of Year	121,696	121,696	121,696	
Fund Balance - End of Year	<u>\$ (5,742)</u>	<u>\$ (4,094)</u>	<u>\$ (12,576)</u>	

The footnotes are an integral part of these Financial Statements.

CITY OF POTTERVILLE  
 Budgetary Comparison Schedule  
 Debt Service Fund  
 For the Year Ended June 30, 2008

	Budgeted Amounts			Variance with Final Budget - Favorable (Unfavorable)
	Original Budget	Final Budget	2008 Actual	
<b>Expenditures</b>				
Debt Service	112,271	97,635	83,622	14,013
Total Expenditures	112,271	97,635	83,622	14,013
Excess Revenues Over (Under) Expenditures	(112,271)	(97,635)	(83,622)	14,013
<b>Other Financing Sources (Uses)</b>				
Transfers Out	14,636	-	-	-
Transfers In	112,300	83,600	83,600	-
Total Other Financing Sources (Uses)	126,936	83,600	83,600	-
Excess Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	(14,607)	(14,035)	(22)	14,013
Fund Balance - Beginning of Year	46,001	46,001	46,001	
Fund Balance - End of Year	<u>\$ 31,394</u>	<u>\$ 31,966</u>	<u>\$ 45,979</u>	

The footnotes are an integral part of these Financial Statements.

CITY OF POTTERVILLE  
 Budgetary Comparison Schedule  
 Imagination Station Park Fund  
 For the Year Ended June 30, 2008

	Budgeted Amounts			Variance with Final Budget - Favorable (Unfavorable)
	Original Budget	Final Budget	2008 Actual	
<b>Revenues</b>				
Interest & Rentals	\$ -	\$ 20	\$ 23	\$ 3
Total Revenues	-	20	23	3
<b>Expenditures</b>				
Culture & Recreation	4,000	4,000	3,092	908
Total Expenditures	4,000	4,000	3,092	-
Excess Revenues Over (Under) Expenditures	(4,000)	(3,980)	(3,069)	911
Fund Balance - Beginning of Year	5,399	5,399	5,399	
Fund Balance - End of Year	\$ 1,399	\$ 1,419	\$ 2,330	

The footnotes are an integral part of these Financial Statements.



5005 49546 5187100 5372441 5 GARRIDGECPAS

## Report on Internal Control

December 26, 2008

To the City Council  
City of Pottersville, Michigan

Dear Council Members:

In planning and performing our audit of the financial statements of the City of Pottersville (the "City") as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A **significant deficiency** is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements such that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider certain deficiencies, as described below, to be significant deficiencies in internal control.

### **Segregation of Duties**

As is the case with many organizations of similar size, the City of Pottersville lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Essentially, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it. We recommend having as many qualified City staff managers approve, review and reconcile accounting records and balances.

### **Administrative Staff Turnover**

The City has experienced a high level of employee turnover in its administrative offices. We recommend that the City consider offering increased levels of training to its administrative staff members to improve efficiency in recording and reporting accounting information. We also recommend having as many qualified City staff members approve, review and reconcile accounting records and balances, as mentioned above.

### **Reconciliation of Subsidiary Ledgers**

During the testing of accounts payable and accounts receivable, we noticed that the subsidiary ledgers of both accounts payable and accounts receivable are not being reconciled to the general ledger. Reconciling the subsidiary ledgers could potentially lead to the discovery of errors more quickly, allowing the City to take more timely corrective action. Reconciling more frequently would also allow the City to better match its revenues and expenses into the proper accounting period, improving the usefulness of its accounting reports. We recommend reconciling the accounts payable and accounts receivable subsidiary ledgers to the general ledger at least once per quarter.

A ***material weakness*** is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We consider certain deficiencies, as described below, to be material weaknesses in internal control.

### **Adjusting Entries**

During the course of our audit, we noticed one material adjusting entry recorded in the GL for which the City was not able to produce supporting documentation. We recommend that all adjusting entries be substantiated with authorized source documents.

**Bid Policy**

During our audit, we found multiple contracts that were formed for purchases that were in violation of the City's bidding policy. The City requires a minimum of 3 bids for purchases in excess of \$10,000, and on multiple occasions we found that no bids were requested from potential vendors. We recommend that the management strictly enforce its bid policy.

**Deficit Fund Balances**

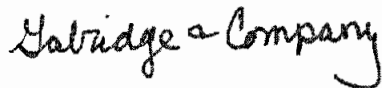
The City currently has two funds that have a fund deficit (Storm Drain Maintenance Fund, negative \$682 and Sunset Hill Debt Service Fund, negative \$12,576). We recommend that the City write a corrective action plan to correct the fund deficits. We also recommend that the City closely monitor its fund balances to ensure that no funds post a deficit balance.

**Financial Reporting**

The preparation of financial statements in accordance with generally accepted accounting principles (GAAP) requires internal controls over both (1) recording, processing and summarizing accounting data, and (2) reporting financial statements including related footnotes. During the audit of the City, several adjustments, material in the aggregate to the financial statements of the City, were identified by the auditors, who cannot by definition be considered a part of the City's internal controls.

We are grateful to be of service to the City. Should you wish to discuss any of the items included in this report, we would be happy to do so.

Best regards,

A handwritten signature in cursive script that reads "Gabridge & Company".

Gabridge & Company, PLC



December 26, 2008

To the City Council of the  
City of Pottersville, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pottersville (the "City") for the year ended June 30, 2008, and have issued our report thereon dated January 2, 2009. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America**

As stated in our engagement letter dated July 11, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on October 20, 2008.



## **Significant Audit Findings**

### **Qualitative Aspects of Accounting Principles**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

**Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**Management Representations**

We have requested certain representations from management that are included in the management representation letter dated October 20, 2008.

**Management Consultations with Other Independent Accountants**

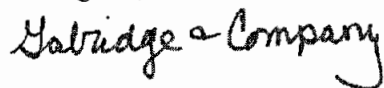
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no consultations with other accountants.

**Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as a governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the City of Pottsville and is not intended to be and should not be used by anyone other than those specified parties.

Best regards,

A handwritten signature in cursive script that reads "Gabridge & Company".

Gabridge & Company, PLC